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The Real Debt Problem

Someone sent me an article from something called Patriot Alerts, "Morgan Stanley Sounds Alarm On 'Death Of US Dollar.'"

The death of the US dollar is not blamed on the Federal Reserve printing trillions of new fiat currency during the years of Quantitative Easing in order to bail out the difficulties of the 5 large banks. It is not blamed on the thoughtless US sanctions imposed on Russia, Iran, and other countries, the only effect of which is to encourage countries to abandon the dollar based system, thus causing a drop in the demand for dollars and US Treasury debt.

Instead, the dollar's peril is blamed on Russia, China, Iran, "oil-soaked Saudi Arabia" and "our neighbor Mexico." In other words, it is a cover-up for the Fed and Biden regime's catastrophic mistakes.

It turns out that the report is nothing but an advertisement for how to protect your pension and bank accounts by obtaining a copy of "US Dollar Collapse Guide."

This marketing nonsenses provoked me to write this article.

As I have made crystal clear in my 4-Part series "The Great Dispossession," you have already lost ownership of your banking, pension, and investment accounts. Your "ownership" has been reduced to permission to use your assets until the financial intermediary holding them gets into financial trouble. At that moment, they cease to be your property and become the property of the creditors of the intermediary that holds your accounts, whether it be Merrill Lynch, Schwab, Wells Fargo, TIAA, or whoever. Your dispossession was done quietly over many years by regulatory agencies. This is what Klaus Schwab of the World Economic Forum means when he tells you that "you will own nothing." You already don't.

The US dollar is in trouble, but it is trouble of Washington’s making. Republicans and the financial press, to the extent that one still exists, blame the dollar’s trouble on rising public and private debt. The US runs massive trade and budget deficits. These deficits for decades have been alleged to mean the death of the dollar. The narrative was that the dollar would be weakened by having to finance rising trade and domestic debt. When I was in the Congressional staff and later as Assistant Secretary of the US Treasury for Economic Policy, I had to deal with this ignorance, and it was frustrating. No one in Congress, on Wall Street, in the banks, or in the economics departments of universities understood the meaning of the US dollar as reserve currency.

When a country’s currency is the reserve currency, a role the US seized from Great Britain as its World War II victory prize, it means that there is unlimited demand for your debt. The reason is that your debt is the reserves of the world’s central banks. An increase in US debt is an increase in the reserves of the world banking system. As central banks desire more reserves, there was always a demand for US Treasury debt. There was zero financing problem.

All of the nonsense we heard for decades about the impossibility of paying off the US debt was unbridled ignorance. The debt did not need to be payed off. If it had been, the reserves of the world banking system would have collapsed, and the Great Depression that the Americans experienced in the 1930s, due entirely to the Fed’s failure to expand bank reserves, would be worldwide.

Being the world currency, a role Roosevelt stole from England, means the US can pay its international bills by printing money or issuing debt.

What has put this American privilege in danger is Washington’s stupid, indeed mindless, imposition of economic sanctions that then are evaded by ceasing to use the US dollar as world money. When countries cease settling their international balance of payments accounts in dollars, as Russia, China, Iran and other countries are doing, demand for Treasury debt drops. This means as the sanctioned central banks move to gold and non-Western currencies as reserves, that the demand for US Treasury debt drops, and for the first time in recent history, financing America’s tremendous public debt becomes a problem.

To be completely clear, the ONLY reason the US dollar is in danger of a large reduction in its value, is that Biden’s sanctions are driving countries away from the dollar. US debt can become a problem only from the abandonment of the dollar as world money. As US debt is denominated in US dollars, the Federal Reserve can always pay off the US debt no matter how large it is by printing money and buying the bonds.

The problem is not that the debt can't be paid. The problem is whereas the Fed can print dollars to meet any debt payments, it cannot print foreign currencies with which to buy dollars in foreign exchange markets. When US Treasury debt is redeemed, the debt holders (largely foreign central banks) receive dollars. If they have lost confidence in the dollar, they sell the dollars in the currency markets, and the enormous supply of dollars drive down its value.

When the dollar's value is driven down, the offshored production of American firms, who produce in Asia and Mexico the products they sell to Americans and which comes in as imports, rise in price, thus causing domestic inflation, reducing the dollar's purchasing power and causing more exit from the dollar.

In other words, it is a death scenario–one produced by the Federal Reserve, the incompetent or bought-and-paid-for American economists, a mindless American government, and the mindless financial press.

The minute the dollar goes, American power goes with it.

Most of the world can hardly wait for it to happen.

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